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REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Ms. Edelana M. CUAYO (Philippines)

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INTRODUCTION

1. The Budgetary and Finance Committee held 13 formal meetings from 3 June through 21 June 1991 under the chairmanship of Mr. Jeremiah Kramer (Canada). Ms. Edelana Cuayo (Philippines) served as Rapporteur of the Committee. Mr. Aly Nazerali (United Nations Development Programme (UNDP)) served as Secretary to the Committee.

2. At its first meeting, the Committee approved the provisional agenda and organization of work contained in annexes I and II, respectively, to document DP/1991/BFC/L.1. The Committee agreed to keep its schedule of work flexible, taking into account the availability of documentation and the number and nature of matters referred to it by the Council.

3. The recommendations of the Committee were submitted to the Governing Council in the addenda and annexes of document DP/1991/BFC/L.2, together with the amendments thereto contained in DP/1991/BFC/L.3 and Add.1. At its 38th meeting, the Governing Council adopted the recommendations of the Committee. The views expressed during the Council's consideration of the Committee's recommendations are contained in document DP/1991/SR.38 and also reflected under the respective item entitled "Further comments" in each chapter of the present report.

4. The report to the Economic and Social Council on the thirty-eighth session of the Governing Council (E/1991/34, Supplement No.13) includes, in its annex I, the recommendations of the Budgetary and Finance Committee as approved by the Governing Council.

I. MATTERS REFERRED TO THE COMMITTEE BY THE COUNCIL

5. One item, allocation of funding for the Humanitarian Programme, was referred to the Budgetary and Finance Committee by the Drafting Group of the Governing Council. This was taken up for discussion as part of informal consultations on the UNDP biennial budget estimates for 1992-1993 and the agreement reached by the Budgetary and Finance Committee was incorporated into decision 91/46 (para. 27).

II. UNITED NATIONS POPULATION FUND

6. For consideration of agenda item 6, the Budgetary and Finance Committee had before it the following documents:

> Biennial budget estimates for administrative and programme support services for the 1992-1993 biennium and revised budget estimates for the 1990-1991 biennium (DP/1991/36 and Corr.1-4);

Biennial budget estimates for administrative and programme support services for the 1992-1993 biennium: UNFPA's Reserve for Field Accommodation (DP/1991/36/Add.1);

Report of the Executive Director on UNFPA publications (DP/1991/37);

Annual financial review, 1990 (DP/1991/38);

Audit reports (DP/1991/39);

Report of the Advisory Committee on Administrative and Budgetary Questions (DP/1991/40).

7. Complementary information on matters of interest to the Budgetary and Finance Committee was also made available, including additional justification pertaining to specific budgetary proposals not endorsed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

8. In introducing agenda item 6, the Executive Director of the United Nations Population Fund (UNFPA), informed the Budgetary and Finance Committee of the projected increase in UNFPA income from $363.2 million in the 1988-1989 biennium to $450.3 million for the 1990-1991 biennium, or an expected average annual increase of 13.3 per cent. For the 1992-1993 biennium, income was estimated at $550 million, or an average annual increase of 10.1 per cent over the estimates for 1990-1991. The Fund's expenditures and project delivery rates had also risen rapidly. Unexpended balances of general resources, which peaked at $31.8 million at 31 December 1988, were fully spent as of 31 December 1990. Consequently, there were no carry-overs from 1990 into 1991.

9. The Executive Director emphasized that those programme directions had focused attention on issues of accountability, both technical and financial, as well as on the needs for more training of staff and for better management information systems. Those needs were reflected in the budget proposals.

10. Turning to the proposals contained in the budget document, the Executive Director noted that they comprised revised estimates for 1990-1991 and the budget proposals for 1992-1993, presented in the general format and appropriation structure used in the approved 1990-1991 budget for administrative and programme support services (APSS).

11. With reference to the revised 1990-1991 budget estimates, a $6.6 million increase over the appropriations approved by the Governing Council at its thirty-seventh session (1990) was requested. That increase was the result in large part of increases in salaries and common staff costs mandated by the General Assembly at its forty-fourth and forty-fifth sessions and some unforeseen costs incurred in field offices, particularly for the rental and renovation of field office premises.

12. For 1992-1993, the proposed APSS budget was at the level of $110.9 million (gross) and $104.4 million (net), taking into account credits

of $6.5 million to be applied to the budget. On a net basis, the proposed APSS budget represented approximately 19 per cent of projected income. That increase comprised two components: (a) a volume increase of approximately $5.8 million, or 6.4 per cent over the revised 1990-1991 budget estimates, reflecting new proposals and (b) cost increases of $15.1 million or 16.8 per cent over the revised 1990-1991 APSS budget. In line with the Fund's continued emphasis on the field, the field office budget would increase proportionally from 41 per cent to 44 per cent of the total APSS budget.

13. With respect to the staffing proposals, the establishment in 1992-1993 of eight new international Professional posts in the field was requested. Six would be Country Director posts and the other two would be International Programme Officer posts. The proposal for the field also included the establishment of 89 new local posts, including 18 National Programme Officers.

14. With respect to the staffing proposals for headquarters, an increase in staff of seven Professional and 14 General Service posts was requested. In addition, two Professional temporary posts in the Management Information Services (MIS) Unit were requested for conversion to established posts. The Executive Director outlined the proposal to establish an internal audit unit within the Fund in response to the recommendations of the Board of External Auditors, which emphasized the need to strengthen the accountability controls of the Fund.

15. In the area of staff training and development, an amount of $1.3 million was proposed for 1992-1993, comprising $1 million for field activities and $300,000 for headquarters. In order to implement the overall goal of UNFPA office automation strategy, which was approved by the Governing Council at its thirty-sixth session (1989), an amount of $2 million was requested.

16. Budget proposals also included an estimate of $1.8 million for 1992-1993 to cover the requirements of publications which were integrated into the 1990-1991 APSS budget.

17. In the addendum to the APSS budget document, UNFPA requested the establishment of a UNFPA Reserve for Field Accommodation of $5 million for the biennium 1992-1993 to be used to finance the construction of shared field premises under the auspices of the Joint Consultative Group on Policy (JCGP).

18. In concluding her introduction, the Executive Director drew the attention of the Budgetary and Finance Committee to annex II of the APSS budget, which contained a request to the Governing Council to recommend to the General Assembly, through the Economic and Social Council, that formal authority in matters of UNFPA personnel be delegated to the Executive Director by the Secretary-General. The delegation of such authority would permit UNFPA to streamline its personnel contract procedures and conclude an agreement with UNDP on personnel services, as recommended by the United Nations Board of Auditors in its Financial Reports and Audited Financial Statements of UNFPA for the year ended 31 December 1989.

19. The Deputy Executive Director, Policy and Administration, provided additional information pertaining to document DP/1991/38, which contained the financial review of the activities financed by UNFPA and of its trust funds in 1990, and to document DP/1991/39, which presented the audited accounts of executing agencies for the year ended 31 December 1989 and the corrective actions taken by UNFPA in response to the recommendations of the United Nations Board of Auditors in its report on UNFPA financial statements for the year ended 31 December 1989.

20. Referring to UNFPA's liquidity position, the Budgetary and Finance Committee was informed that UNFPA had bank balances and time-deposit investments amounting to approximately $84.2 million. Of this, $45 million were investments of the operational reserve. Reference was made to the Executive Director's recommendation in document DP/1991/30 to set the level of the operational reserve at 20 per cent of estimated income.

21. Turning to the document on audit reports, the Deputy Executive Director informed the Budgetary and Finance Committee that significant progress had been made regarding the recommendations of the auditors.

22. With regard to project expenditures executed by Governments, the Deputy Executive Director outlined the specific measures taken, in consultation with the Governments concerned, to improve financial control regarding balances of advances with Governments and to clear unspent advances. In order to ensure accountability and financial control over nationally executed projects, specific measures had been planned in the biennial budget proposal for 1992-1993, including the expansion of training programmes, the establishment of an internal audit unit in UNFPA and the strengthening of UNFPA field office capacity in financial management.

23. As recommended by the Board of External Auditors, UNFPA had issued comprehensive guidelines to all non-governmental organizations (NGOs) executing UNFPA-funded projects so that their year-end financial reporting requirements could be satisfactorily met. In addition, the Fund was also reimbursing the cost of independent audit to certain organizations. As a result, the audit coverage of financial reports had significantly improved.

Summary of the discussion in the Committee

24. Delegations thanked the Executive Director for her comprehensive introductory statement, which clarified a number of issues in the proposals before the Budgetary and Finance Committee. Appreciation was also expressed for the additional information provided by the Deputy Executive Director, Policy and Administration.

25. Delegations generally endorsed the view of ACABQ regarding the revised estimates for the 1990-1991 APSS budget. In sum, most representatives agreed with the increases resulting from statutory increases beyond the control of UNFPA. One representative recommended that cost increases should be absorbed by savings in other items of the budget. Comments were also made that

non-statutory increases such as travel, rental and renovation costs, and the procurement of a telephone system and fax machines should be postponed to the following biennium.

26. Referring to the proposed budget for the 1992-1993 biennium, there was general concern expressed over the proposed increases which would bring the APSS budget to some 20 per cent of general resources. The UNFPA Administration was urged to exercise caution in projecting future staffing needs since future increases in income were dependent on indeterminate factors and thus were uncertain. Increases in APSS costs higher than those in general resources should be avoided. In that connection, one representative recommended that the Fund should present a medium-term staffing plan to enable the Governing Council to assess the organization's long-term staffing needs. Two representatives pointed out that some staff increases over time were permissible, but should be fully justified.

27. The possibility of reassigning existing human resources to meet changing needs in the Organization should be explored. Towards that end, appropriate training should be made available. UNFPA was asked to clarify to what extent the reassignment or redeployment of staff had been done to meet changes in priorities. A question was raised as to the number of vacancies that currently existed on the staffing table, particularly at the senior levels.

28. The Fund was commended for proposing larger increases in staff for the field than for headquarters. A question was raised as to what extent the redeployment of field posts had been considered. In that connection, the lower cost of employing local staff compared with that of employing international staff was noted and the Fund was urged by some delegations to place more emphasis in the future on engaging national staff.

29. In order to assess better the proposed growth in staff outlined in the 1992-1993 budget proposal, the Administration was requested to provide data on the trend in staffing growth in recent years.

30. In general, delegations believed that more elaboration and justification were needed in support of the requests for additional staff at headquarters as well as in the field, although some representatives agreed with the ACABQ endorsement of the requested additional field posts.

31. With specific reference to the request for a number of additional General Service posts at headquarters, several representatives requested information on the extent to which office automation might have increased the productivity of staff in that category, which could have mitigated the need for additional staff. Some representatives queried why the investment in computerization had not resulted in a reduction in staff.

32. With regard to the establishment of an internal audit unit at UNFPA, different viewpoints were put forward. A number of delegations endorsed the proposal in principle, commenting that it would be a step in the right direction to enhance better financial monitoring and control within the

Organization. Some delegations did not find the proposal fully convincing and were concerned that the establishment of such a unit would lead to the fragmentation of procedures and functions within the United Nations system. It was proposed that the enhancement of the UNDP Division for Audit and Management Review should be considered. One representative, while welcoming the intention to enhance the Fund's financial management capability, noted that it would be an exception to the agreement reached by the Governing Council at its thirty-seventh session (1990) that there would be no more structural changes within UNFPA. Two delegations requested more information on the costs involved in establishing such a unit and how such costs compared with current subventions paid to UNDP for auditing services. Another delegation sought clarification of the possibility that the establishment of the unit would result in a reduction in future subventions to UNDP.

33. With respect to the proposal for office automation and MIS, one delegation emphasized the need to ensure compatibility with systems in UNDP and other United Nations organizations. Another delegation pointed out that there was a tendency to overestimate the use of computer systems. UNFPA was asked to clarify what steps had been taken to maximize the productive use of equipment and how the productivity of staff had been affected since the initiation of the automation strategy. In addition, clarification was requested on projections, if any, on potential savings in the future in terms of a decrease in secretarial positions as a result of office automation.

34. Discussion on the request for a UNFPA Reserve for Field Accommodation reflected various points of view. One delegation suggested providing funds to UNDP for a joint reserve rather than establishing a separate UNFPA reserve. Another asked how the UNDP Reserve for Field Accommodation, which was to be replenished by contributions of the other JCGP members, had been depleted. Clarification was also requested on how the proposed $5 million figure had been reached. It was recommended that if such a reserve were established, UNFPA should submit a biennial report to the Governing Council on its operation.

35. With respect to the annual financial review and audit reports, a number of delegations expressed their concern that in 1990 expenditures had, for the first time, exceeded income, and they strongly urged strict financial control in the future to ensure the Fund's liquidity. In that connection, they asked for more data regarding the proposal to adjust the level for the operational reserve. One representative requested an overview of the existing reserve since its establishment. Specific information on the absolute amount(s) entailed by a 25 per cent operational reserve was also requested.

36. With specific reference to the audit reports, appreciation was expressed for the measures taken to improve internal financial control and monitoring mechanisms. It was noted, however, that the audit reports before the Committee were still qualified reports and the Fund was urged to strive for unqualified reports at the earliest possible date.

37. With regard to nationally executed programme expenditures, some delegations questioned how direct payments made on behalf of Governments were audited and who had responsibility for such audit. One delegation requested specific information on the findings of an inquiry into interest income earned on investments of unexpended advances in the past. Another delegation asked whether the Fund's computerized audit information system would be available for use by Governments.

38. One delegation noted that the problems in obtaining certified statements from Governments might have been due to a lack of capacity. By the same token, in deciding on the execution modality for UNFPA-funded projects, accountability should be used as a major criterion. Some delegates agreed with the UNFPA policy to reimburse NGOs for the cost of audits, when needed.

39. Appreciation was expressed for the report on UNFPA publications. There was general approval of the budget proposals to cover the cost of publications integrated into the APSS budget.

40. There was unanimous endorsement of the ACABQ approval of the Executive Director's request for formal authority in matters of UNFPA personnel. It was generally believed that the Fund had proved that it was a fully viable entity and that such authority should be granted to its Executive Director.

Response of the Administration

41. The Deputy Executive Director, Policy and Administration, thanked delegations for their comments on the various proposals before them. They had provided good guidance for administering UNFPA operations in the future.

42. In response to the concern expressed by delegations over the proposed staffing increases, the Deputy Executive Director provided the following justification: while the organization had made steady progress in streamlining UNFPA operations and procedures through delegation of authority and staff rotation, etc., the existing staff was overstretched. Thus, they could attend only to urgent matters while many important matters could not receive due attention. The workload of the organization had not only increased steadily but had also diversified, as a result of which, many staff had to be reoriented and new systems introduced.

43. At the end of 1989, the Amsterdam Declaration on a Better Life for Future Generations, which was endorsed by the General Assembly in its resolution 44/210 of 22 December 1989, made it incumbent on UNFPA to strengthen its capacity, particularly in the field, in order to deliver a much bigger programme and to assist a larger number of Governments in implementing population programmes. That also implied the need to strengthen a number of headquarters units that provided essential backstopping to the field, for example, in the area of financial, personnel, administrative and support information services.

44. In order to streamline its procedures, UNFPA intended to conduct an internal review and assessment of staffing needs, organizational set up, procedures and policies, in the balance of 1991 and in early 1992. In doing so, all comments and exhortations by the delegations would be taken into account. It was hoped that those efforts would result in a better presentation in terms of both the substance and format of future budget proposals.

45. On the subject of the MIS proposal, the Deputy Executive Director indicated that the implementation of the office automation strategy would result in an increase in efficiency but not necessarily a decrease in staff since the workload continued to increase steadily. UNFPA was in the midst of developing new systems which needed to be tested and debugged; savings on staff posts, if any, would be realized only much later, after all the systems were fully operational.

46. In response to the questions regarding the growth pattern in UNFPA staff, information was provided on staffing trends for the period 1986-1993. The Deputy Executive Director summarized the situation with respect to existing vacancies and stated that all vacancies should be filled by year-end. He clarified that all senior-level posts were filled although not all incumbents were at the classified level of the post. That was because staff had to prove themselves equal to the demands of the higher-level posts before being promoted to that grade.

47. In response to the question raised about the proposed transfer of funds from systems development to the purchase of hardware, the Deputy Executive Director emphasized that denial of the request would inhibit the implementation of important electronic data processing systems, delaying the computerization of field offices, with serious adverse impact upon financial control of funds. In addition, he pointed out that the Executive Director was authorized to transfer funds between allotments in the appropriations approved for the current biennium.

48. The requested revised estimates for the rental and renovation of office premises in the field had resulted from a number of unanticipated one-time expenditures in several duty stations. Most of those costs could not be recovered and therefore could not be charged to the proposed reserve as recommended by the ACABQ in relation to JCGP arrangements.

49. Turning to the establishment of the internal audit unit, the Deputy Executive Director emphasized that it was essential to the Fund's intention to uphold strict financial control and discipline. The proposal was a direct result of a strong recommendation from the External Auditors after they had the opportunity to examine many UNFPA programmes in the field. The External Auditors had come to the conclusion that the internal auditing of UNFPA should be strengthened.

50. It was underlined that strengthening financial control was the most important consideration currently facing the Fund. The Budgetary and Finance

Committee was assured that with the establishment and close monitoring of programme as well as country ceilings, programme expenditures would not exceed available resources. Meanwhile, efforts were continued to strengthen the financial monitoring capability of the geographical divisions as well as the Finance Branch at headquarters and of field offices. In that connection, plans had been made to provide financial training for government officials and field office staff. Moreover, UNFPA Country Directors would also receive management training to enhance their skills in that particular area.

51. With reference to the operational reserve, the Deputy Executive Director informed the Budgetary and Finance Committee that in the past few years there had been no major problems in maintaining the reserve at approximately $45 million. An internal review was conducted in order to determine an appropriate level for the operational reserve in light of projected increases in income. It was found that maintaining the reserve at 25 per cent would tie up too much money that could otherwise be used for programmes. At the level of 20 per cent, however, there would be sufficient increases to the reserve as resources grew to give the Fund the necessary buffer it needed in case of emergencies.

52. The Deputy Executive Director informed the Budgetary and Finance Committee that a review was under way to assess field office staffing requirements, and its findings would be taken into account in the preparation of the next set of budget proposals. As for the criteria used in the establishment of Country Director posts, the Deputy Executive Director referred to the criteria which were first presented to the Governing Council at its thirty-second session (1985) in document DP/1985/38 and reiterated in document DP/1988/42. They were noted and endorsed by the relevant sessions of the Council and continued to be applied in determining the establishment of UNFPA field offices.

Recommendation of the Committee

53. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the biennial budget estimates for the administrative and programme support services for the 1990-1991 biennium and budget estimates for the 1992-1993 biennium (DP/1991/36 and Corr.1-4), the note by the Executive Director on UNFPA's Reserve for Field Accommodation (RFA) (DP/1991/36/Add.1), the report of the Executive Director on UNFPA publications (DP/1991/37), the annual financial review, 1990 (DP/1991/38), the audit reports (DP/1991/39) and the report of the Advisory Committee on Administrative and Budgetary Questions (DP/1991/40),

Having taken into account the views and comments of members of the Governing Council on the documentation before it,

Recalling its decisions 89/49 of 30 June 1989 and 90/36 of 22 June 1990,

1. Notes the steps which the Executive Director has taken, or is taking, within her competence to implement previous recommendations of the Board of External Auditors in response to paragraph 13 (a) of General Assembly resolution 45/235, of 21 December 1990;

2. Takes note of the audit reports (DP/1991/39) and the comments made thereon by delegations;

3. Also takes note of the annual review of the financial situation, 1990 (DP/1991/38) and the comments made thereon by delegations, in particular with reference to the need to strengthen further the financial management of the United Nations Population Fund;

4. Further takes note of the recommendations of the Advisory Committee on Administrative and Budgetary Questions on the 1990-1991 revised budget estimate proposals and in particular its comment that supplementary appropriations should not be requested in the middle of a biennium to expand existing activities;

5. Decides that requests for revised budget estimates should be limited to mandatory increases, defined as those aspects which are beyond management control, i.e., exchange rate fluctuations, statutory salary increases, and, in exceptional cases, unanticipated rent increases, additional staff entitlements approved for the common system and other unforeseen cost increases for existing United Nations Population Fund offices;

6. Approves, on an exceptional basis, the request of the Executive Director for $1.3 million for the rental and renovation of premises in the revised 1990-1991 budget estimates;

7. Also approves appropriations in the amount of $89,457,200 gross to be allocated from resources indicated below to finance the revised 1990-1991 biennial budget for administrative and programme support services, and agrees that the overhead credits available to the United Nations Population Fund in the estimated amount of $4 million and the miscellaneous income from trust funds for support services in the amount of $500,000 shall be used to offset the gross appropriations, resulting in net appropriations of $84,957,200 as indicated below:

1990-1991 revised biennial budget

(Thousands of United States dollars)

Programme	Appropriations
Executive direction and management	4 797.1
Administration and information and external relations services	25 737.5
Programme planning, appraisal and monitoring	22 640.5
Field programme support	36 282.1
Total gross appropriations	89 457.2
Less: Estimated credits and income	4 500.0
Total net appropriations	84 957.2

8. Takes note with concern that the share of United Nations Population Fund resources to be allocated to the budget for administrative and programme support services continues to increase for the biennium 1992-1993 also and requests the Executive Director to give full consideration to this matter in formulating future budgets and in particular the 6 per cent rate of growth noted in the work plan;

9. Approves the establishment, in the budget for administrative and programme support services for the biennium 1992-1993, of seven new regular international professional field posts, comprising six new Country Director posts at the P-5 level (the posts for the Democratic People's Republic of Korea, Ecuador, Honduras, Mauritania, Myanmar, the Syrian Arab Republic) and one new International Officer post at the P-3 level (for Fiji), as well as 90 new regular local posts comprising 19 National Programme Officers and 71 other local General Service posts;

10. Also approves the establishment at headquarters in the budget for administrative and programme support services for the 1992-1993 biennium of five Professional posts and five General Service posts as follows: (a) one General Service post at the G-4 level for the Resource Development Unit; (b) one Professional post at the P-3 level for the Information and External Relations Division; (c) one Professional post at the P-3 level and one General Service post at the G-4 level for the Personnel Branch; (d) two General Service posts at the G-6 level for the Finance Branch; (e) one Professional post at the P-4 level for the Management Information Systems Unit; (f) one

Professional post at the P-3 level for the Training and Coordination Unit; (g) one General Service post at the G-4 level for the Planning and Statistics Unit; and (h) one Professional post at the P-4 level for the Maternal and Child Health Branch;

11. Requests that the United Nations Population Fund report to the Governing Council at its fortieth session (1993) on administrative cost savings resulting from the development of management information systems, especially with regard to reductions in General Service staff levels;

12. Agrees with the rationale set forth by the Executive Director in document DP/1991/37 for determining whether a particular publication of the United Nations Population Fund should be funded under the budget for administrative and programme support services or under programme resources, and as recommended by the Advisory Committee on Administrative and Budgetary Questions, approves its inclusion in the 1992-1993 appropriation, as requested;

13. Recognizes in principle the need to establish an internal audit unit within the United Nations Population Fund and accordingly decides, as a first step, to strengthen the capacity of the United Nations Development Programme Division for Audit and Management Review by providing a dedicated section to support the internal audit functions of the United Nations Population Fund by adding two Professional posts at the P-5 and P-4 level and one General Service post at the G-4 level for the 1992-1993 biennium; and decides also that specific proposals for the transfer of the function to the United Nations Population Fund be developed in close consultation with the Board of External Auditors and the Advisory Committee on Administrative and Budgetary Questions and be submitted to the Governing Council in due course. This arrangement will be subject to normal cost reimbursement arrangements with the United Nations Development Programme;

14. Approves appropriations in the amount of $110,610.8 gross to be allocated from resources indicated below to finance the 1992-1993 biennial budget for administrative and programme support services, and agrees that the overhead credits available to the United Nations Population Fund in the estimated amount of $6 million and the miscellaneous income from trust funds for support services in the amount of $500,000 shall be used to offset the gross appropriations, resulting in net appropriations of $104,110.8 as indicated below:

1992-1993 biennial budget

(Thousands of United States dollars)

Programme	Appropriations
Executive direction and management	5 426.3
Administration and information and external relations services	30 781.0
Programme planning, appraisal and monitoring	26 178.5
Field programme support	48 225.0
Total gross appropriations	110 610.8
Less: Estimated credits and income	6 500.0
Total net appropriations	104 110.8

15. Decides to convert two temporary Professional posts at the P-5 and P-3 levels to established posts of the budget for administrative and programme support services for 1992-1993 for the Management Information Systems Unit;

16. Authorizes the Executive Director to transfer credits between programmes within reasonable limits, with the concurrence of the Advisory Committee on Administrative and Budgetary Questions, for the bienniums 1990-1991 and 1992-1993 and requests her to report thereon to the Governing Council;

17. Approves the establishment of a Reserve for Field Accommodation at the level of $5 million for the biennium 1992-1993 and authorizes the Executive Director to make drawdowns from it for the purpose of financing the United Nations Population Fund share of construction costs of common premises under the auspices of the Joint Consultative Group on Policy;

18. Recommends to the General Assembly, through the Economic and Social Council, that, as proposed in annex 2 of document DP/1991/36, and as agreed to by the Advisory Committee on Administrative and Budgetary Questions, formal authority in matters of United Nations Population Fund personnel be delegated to the Executive Director by the Secretary-General;

19. Decides that the level of the operational reserve should be set at 20 per cent of general resources income for each year of the United Nations Population Fund work plan and decides to review the level of the operational reserve every other year.

54. The Governing Council subsequently adopted decision 91/36.

III. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

A. Annual review of the financial situation, 1990

55. For its consideration of item 3 (a), the Budgetary and Finance Committee had before it the reports of the Administrator contained in documents DP/1991/47 and Add.1.

56. The Associate Administrator introduced the item by noting that the report in DP/1991/47 was an omnibus document covering all financial matters relating to the programme, except budget and audit, including a comprehensive review of UNDP financial activities in 1990; forecasts for 1991 and 1992; trust funds established by the Administrator in 1990; and a section on Financial Regulations.

57. He was pleased to report that both voluntary contributions and programme expenditures in 1990 exceeded $1 billion. Compared to 1989, there was a 16.4 per cent field programme expenditure increase, to $1,045 million and a 16.5 per cent indicative planning figure (IPF) expenditure increase, to $849 million. On the income side, UNDP received $1,001.5 million in voluntary contributions in 1990, an increase of 7.4 per cent over 1989. The weakening of the dollar in 1990 accounted for an increase of almost $69 million in the value of pledges between 31 December 1989 and the date paid. Miscellaneous income of $150 million included exchange gains of $83 million. Those unexpected exchange movements resulted in a lower-than-expected decrease in the balance of general resources held by UNDP, which had fallen to $472 million. It was expected that the balance of general resources would fall further in 1991 and 1992 as expenditures for those years were forecast to be in excess of income.

58. In document DP/1991/47, the Administrator had indicated his concern regarding the real growth in contributions to the Programme and also the impact the marked decrease in contributions to the Special Measures Fund for the Least Developed Countries (SMF/LDC) had had on the total contributions. He was seeking the guidance of the Governing Council on the future of the SMF/LDC.

59. The Associate Administrator pointed out that the strengthening of the dollar in 1991 had had a significant impact on the level of contributions now envisaged for 1991. As of 1 May 1991, the value of pledges had decreased by $100 million from the value at end December 1990. Further decreases in the value of pledges and UNDP assets could result from continued appreciation of

the dollar. Forecast IPF expenditures of $860 million in 1991 and 1992 were attainable within present estimates of available resources. The balance of general resources was expected to decrease to $284 million by end 1992. Cost-sharing contributions had increased significantly in 1990, to $169 million.

60. The Governing Council was requested to approve two proposals with respect to the Reserve for Field Accommodations, the first being a decrease of the funds for rehabilitation from $2.2 million to $1.55 million; and the second an increase in the amount of the Household Appliance Rental Scheme from $750,000 to $850,000. The Council was also invited to consider two requests, endorsed by the Administrator, for additional support cost reimbursement from the United Nations Industrial Development Organization (UNIDO) and the World Meteorological Organization (WMO); and a further request from WMO, which was not supported by the Administrator.

61. The Associate Administrator noted that the document also included information on cost-sharing activities, management and support services, trust fund activities approved by the Administrator in 1990, ex-post facto reporting, support costs for agencies under flexibility arrangements, changes to financial regulations, the operational reserve, accumulated non-convertible currencies, and agency support costs paid under flexibility arrangements for the smaller agencies. Document DP/1991/47/Add.1 covered the net flow of contributions by donor and recipient Governments and its annex contained financial information on the United Nations Volunteers (UNV) programme.

Summary of the discussion of the Committee

62. A number of delegations noted UNDP's strong financial situation and commented favourably on improvements in UNDP's financial management and in the documentation provided. They welcomed the increase in programme expenditures during 1990, but asked how much of the increase in delivery reflected foreign exchange movements. One representative asked for five-year historical data on expenditures broken down by executing agency and for additional details on the evolution of execution by Governments.

63. While noting the favourable foreign exchange impact on the dollar value of contributions and on miscellaneous income, they commented on the low real growth in contributions and cautioned against excessive optimism in projecting real contribution growth in the future. One delegation raised the possibility of using units of account other than the dollar, such as Special Drawing Rights, as a method of reducing the reporting distortions caused by currency fluctuations.

64. The excess of total expenditure over total income in 1990 was discussed as were the forecasts for deficits to continue in 1991 and 1992. Clarification was requested as to the impact of the recent strengthening of the dollar on the forecast levels of the balance of general resources.

65. After noting that future contributions to the SMF/LDC were not likely to materialize, a number of delegates sought clarification on the Administrator's plans for the Fund.

66. Many delegations expressed support for the proposed changes to the Reserve for Field Accommodation but asked for further details of proposed expenditures and confirmation that rents charged to staff did not involve any element of subsidy.

67. Some delegations agreed to the requests from UNIDO and WMO for the additional support costs reimbursement provided for in the UNDP Financial Regulations as compensation for losses sustained in 1990 as a result of currency fluctuations; and that the second request from WMO with respect to reimbursement for losses resulting from exchange rate fluctuations in the period 1981-1986 did not adequately justify an exception beyond that granted in Governing Council decision 87/49. Some delegations supported all three requests while others wished to reject all three.

Response of the Administration

68. The Administration noted comments on the low real growth of contributions and confirmed that well-planned financial management would continue to be a top priority. UNDP was well aware that deficits were not sustainable over a long period but noted that the planned excesses of expenditures over income were in response to previously stated views of Governing Council members as to the need to increase programme expenditures and reduce the balance of general resources to more reasonable levels.

69. The latest forecasts, incorporating foreign exchange movements during May 1991, i.e., after the preparation of the document, indicated that the balance of general resources might drop to $179 million by the end of 1992 but that would be in addition to the operational reserve of $200 million. Future levels of income, expenditure and available resources would be closely monitored and actions taken as appropriate to changing circumstances.

70. In the light of the drop in contributions to the SMF/LDC, the Administrator proposed to continue to execute projects within the resources of the Fund until the balance of resources in the Fund was used up. It was likely that that would occur within the following two to three years. As the individual projects were completed and the number of SMF-funded projects decreased, new projects with a similar focus would be funded from the IPF or other sources of funds in line with priorities established by the Governing Council. The Administrator would take appropriate action to ensure that the administration of the remaining resources of the SMF/LDC was carried out in the most cost-effective manner.

71. The possible use of Special Drawing Rights to reduce the currency fluctuation impact on reported income and expenditures had been considered in detail by UNDP and its agency partners and the subject was covered in more detail in document DP/1991/24, to be discussed by the Governing Council.

Further comments

72. After adoption of the decision on this item (see para. 73 below) by the Governing Council, one delegation informed the Council that note should be taken of the discussions on least developed countries (LDCs) held in the plenary and further indicated that the recommendation of the Budgetary and Finance Committee should in no way be interpreted as the end of the SMF/LDC and should be in line with the decision of the Drafting Group on the subject contained in document DP/1991/L.8/Add.20, paragraph 5.

Recommendation of the Committee

73. Following its consideration of the subject, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council

1. Takes note of the report of the Administrator on the annual review of the financial situation (DP/1991/47 and Add.1) and the observations and comments thereon made by its members;

2. Notes the comments of the Administrator on the level of programme expenditures for 1990 and on the level of the operational reserve;

3. Further notes the forecast for expenditures for 1991 and 1992, in which expenditure continues to exceed income, which will result in a reduced balance of resources at the end of 1992;

4. Notes the impact of fluctuations in exchange rate parities on the dollar level of contributions and the low level of real growth in contributions;

5. Requests the Administrator to continue to monitor closely the level of contributions and expenditures and the balance of available resources;

6. Authorizes the Administrator to increase the level of the Household Appliance Rental Scheme to $850,000 and to reduce the funds for rehabilitation to $1.55 million;

7. Notes the marked decrease in contributions to the Special Measures Fund for the Least Developed Countries;

8. Decides that the Administrator should continue to execute projects funded from the Special Measures Fund for the Least Developed Countries until such time as available funds have been fully utilized;

9. Approves payment of additional support cost reimbursements with respect to project delivery in 1990 by the United Nations Industrial Development Organization and the World Meteorological Organization; and defers consideration of the request by the World Meteorological Organization,

contained in annex III B of document DP/1991/47, until adequate additional information is provided.

74. The Governing Council subsequently adopted decision 91/44.

B. Revised budget estimates for 1990-1991 and budget estimates for 1992-1993

75. For its consideration of agenda item 3 (b), the Budgetary and Finance Committee had before it the following documents:

Revised budget estimates for the biennium 1990-1991 and budget estimates for the biennium 1992-1993 (DP/1991/49 (vol. I) and Corr.1 and DP/1991/49 (vol. II));

Report of the Advisory Committee on Administrative and Budgetary Questions (DP/1991/62)

76. In his introduction, the Administrator summarized the important elements included in the budget proposals as follows.

Revised estimates for 1990-1991

77. The revised estimates for 1990-1991 for UNDP core activities amount to $441 million gross and $410 million net. The 1.6 per cent increase on gross estimates is attributable to other costs and inflation adjustments partially offset by a currency release. No volume adjustments were introduced with regard to the core budget.

78. The revised estimates for 1990-1991 for programme support activities included volume increases relating to the Office for Project Services (OPS) and UNV. In the case of OPS, a substantial growth in programme made a measured increase in staffing critical. The increase in UNV specialists deployed in the field yielded an increase of 3.5 staffing units under the supplementary budget for UNV headquarters in line with Governing Council decision 88/46 of 1 July 1988.

Revised appropriation structure

79. A revised appropriation structure for the revised budget estimates for 1990-1991 and the 1992-1993 budget estimates was intended to ensure consistent treatment of income and to provide more complete information. The administration agreed with ACABQ that table 1.(a) of document DP/1991/49 (vol. I) should be attached to the appropriation decision.

1992-1993 budget estimates

80. The Administrator referred to the three major elements which had guided the preparation of the 1992-1993 estimates. These were: (a) an overriding

concern that the maximum benefit be derived from every dollar contributed for development; (b) the need to give budgetary expression to the thrust of decision 90/34 of 23 June 1990 on the fifth programming cycle; and (c) the need to come to a clearer delineation between programme, programme support and administrative expenditure.

81. Since programme growth in 1992-1993 was expected to be relatively stagnant, real volume cuts were effected in order to contain costs growth and protect the programme. Reductions were proposed to be implemented in the core headquarters budget and amounted to $13.7 million. The number of core posts at headquarters would be reduced by 96. Two major initiatives already in progress in 1990 must be understood as integral to the implementation of the reduction. These were the Integrated Administrative Systems (IAS) project and a parallel study being conducted by an in-house task force addressing programme-related business functions.

82. With regard to the proposed reclassifications, the Administrator stated that the limited number must be seen as an integral part of the restructuring and rationalization undertaken by managers to achieve the budget reduction targets.

83. Growth in the field was kept to a minimum. A number of redeployments and some selective strengthening of field offices experiencing substantial programme growth were proposed. A significant element related to the opening of three field offices in Europe (in Poland, Albania and Bulgaria). The Administrator stated that the proposal with regard to Europe constituted the minimum capacity required if UNDP was to play an active role and be responsive to the changes taking place in the region. The net costs of the selective strengthening was $900,000.

84. The proposed budget strategy allocated 5.2 per cent of total resources to the headquarters core budget and 10.9 per cent to the field core budget in the 1992-1993 biennium. In that connection, the Administrator stressed the point that a significant percentage of field office workload did not relate to the delivery of the IPF programme. Over the preceding decade, statistics had indicated consistently that some 45 per cent of field office activities did not relate to the IPF programme. He believed that that factor must be given full recognition in making assessments of budget trends in comparison to total programme resources.

85. The second major thrust in the budget related to the development of a new appropriation line for programme development activities. The rationale behind this proposal was as follows:

(a) It provided for a budget presentation which was responsive to the direction and priorities established by the Governing Council;

(b) The Governing Council, for the first time, would have a comprehensive picture of UNDP thematic and programme development work at headquarters;

(c) There would be a clearer delineation between programme, programme support and administrative expenditure;

(d) The presentation of programme development activities under a separate appropriation line properly reflected the fact that those initiatives were not part of the UNDP permanent infrastructure but related to areas requiring innovation and development; and

(e) The international community, through the appropriation process, would be able to translate changing developmental priorities into resource availability.

The Administrator emphasized that the proposal did not represent volume growth from the perspective of UNDP overall resources but merely a restructuring and consolidation of the functions of a number of organizational units.

86. The budget estimates for 1992-1993 UNDP core activities amounted to $482 million gross and $450 million net. They included a headquarters volume decrease of $13.7 million; a field volume increase of $1.9 million, including $1 million for training; a transfer of $14.5 million from the core budget to the programme support and development activities (PSDA); and overall cost increases of $66.8 million.

87. The budget estimates for 1992-1993 for UNDP programme support and development activities amounted to $100.4 million. They included $14.5 million transferred from the core budget; $6.4 million transferred from Special Programme Resources (SPR) and global funding; and cost adjustments of $10.6 million.

88. An increase of one Professional and one General Service post was proposed for the United Nations Development Fund for Women (UNIFEM) and four selective reclassifications for the United Nations Sudano-Sahelian Office (UNSO) and the United Nations Capital Development Fund (UNCDF). Decreases were incorporated for the United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE) and the United Nations Fund for Science and Technology for Development (UNFSTD), reflecting the administrative merger approved in 1990.

89. With regard to the Development Support Services (DSS), the Administrator stressed that the resident representatives had found the concept highly attractive. He felt that the experience so far had been encouraging and fully justified continuation in the 1992-1993 biennium.

Summary of the discussion in the Committee

90. Many delegations expressed appreciation for the ACABQ report. Several delegations considered the documentation voluminous and often very complex, partly due to the number of conceptual changes being proposed. They invited the Administrator to continue efforts to simplify it. Any drastic changes should, however, not hamper comparability with previous budgets. The addition of an executive summary could be an improvement. Some delegations asked for

inclusion of a more comprehensive projection and analysis of the overall resource situation of UNDP.

Revised estimates for 1990-1991

91. With regard to the revised 1990-1991 estimates for programme support activities, some delegations expressed the need for careful review of the continued expansion of OPS. Reference was made to the findings of the ACABQ in that regard. One delegation recommended that the same procedures which applied to the approval of administrative costs for other UNDP programmes be followed with respect to OPS as well. The same delegation expressed doubts about the current procedure for authorizing new posts for the UNV programme.

92. Some delegations asked for clarification about the provision to pay termination indemnities to UNDP staff whose posts would be abolished and the extent to which making the reduction through normal attrition or redeployment was possible.

93. One delegation referred to tables 3-IIB.2a and 3-IIB.2b of document DP/1991/49 (vol. II) relating to OPS and asked for clarification on the provisions being made for reimbursement to UNDP.

Revised appropriation structure

94. Many delegations supported the proposed revision of the appropriation structure and welcomed the fact that the Administration had agreed to attach table 1.(a) of document DP/1991/49 (vol. I) to the appropriation decision.

1992-1993 budget estimates

95. Delegations expressed appreciation for the initiatives the Administrator was taking to contain cost growth by proposing real volume reductions and thereby protecting the programme. The fact that the reductions were implemented at headquarters rather than in the field was supported. Many delegations were, however, concerned that the projected ratio between budget and programme expenditure would increase during the biennium 1992-1993, despite the reductions. In that connection, some delegations reiterated that the increase in voluntary contributions assumed in decision 90/34 on the fifth programme cycle were indicative only and could be too optimistic. Consequently, it could be necessary to extend the policy of containing costs through volume reductions beyond 1992-1993. In that connection, some delegations mentioned the need also to carefully review the field offices, especially those with high expenditure compared to programme delivery.

96. One delegation sought clarification regarding the treatment of the Special Unit for Technical Cooperation among Developing Countries (TCDC) and assurances regarding the priority attached by the Administrator to TCDC activities. Some delegations referred to the importance they attached to the central evaluation function and wondered why the Central Evaluation Office (CEO) had not been strengthened.

97. Some delegations expressed reservations regarding the proposed reclassifications, particularly at senior levels. The outcome of the discussions on the senior management structure should be taken into account before a definite position could be taken. The same applied, according to many delegations, to the addition of one D-2 post and, according to some, to the continuation of grading the two most senior posts in OPS at the ASG and D-2 levels.

98. With regard to proposals for the field, some delegations requested additional information on activities planned by UNDP in Eastern Europe before being able to make a decision on proposals pertaining to that region. Some delegations expressed concern that regular budgets in principle should not be used for funding additional posts and activities in Eastern Europe. One delegation believed that it was premature to approve the staffing proposals for Cambodia at that time and proposed that the current arrangements be maintained until the question of Cambodia had been resolved. Some delegations referred to the findings of the management consultant's report (known as the Kienbaum report), which identified field offices where the administrative costs exceeded the level of IPF programme delivery. In other cases, it was found that staffing levels and administrative costs in some high-income countries were excessive in relation to staffing levels in countries with lower incomes. Several delegations stated that field office costs should continue to be carefully reviewed and analysed in the context of future budget proposals. The 1992-1993 revised budget estimates to be presented to the Governing Council at its thirty-ninth session should prepare ways and means of minimizing administrative costs. The proposal should consider, inter alia:

(a) Redeployment of posts from headquarters to the field in order to respond to emerging development needs;

(b) The possibility of increasing the number of field offices responsible for more than one country;

(c) The possibility of increasing the number of field offices staffed only by a Resident Representative;

(d) The possibility of reducing some field activities not related to delivery of the IPF;

(e) The effect of reducing the number of small projects as a proportion of the overall programme and the effect of greater concentrations in country programmes;

(f) The possibility of streamlining administrative procedures;

(g) The issue of field offices in net contributor countries;

(h) The need to reassign administrative resources from low priority activities to high priority activities.

99. Some delegations expressed reservations regarding the proposed continuation of DSS. One delegation concluded that the facility had been less useful than UNDP had suggested in 1989 since less than one half of the resources had been disbursed or committed. The same delegation expressed concern on the lack of detailed analysis provided and requested additional information per country on the number of consultants and their origin as well as the response of executing agencies to provide UNDP with the technical assistance it required. It was understood by some delegations that the Administrator would provide to Governing Council members, upon request, additional information regarding the functioning and effectiveness of the DSS modality, particularly the responsiveness of specialized agencies of the United Nations system to requests by UNDP Resident Representatives for consultant services.

100. The proposals regarding the UNDP European Office at Geneva were generally supported. One delegation recommended that a review of the substantive functions of the Office be undertaken as soon as possible, also in connection with the proposals being made for field offices in Eastern Europe. Two delegations emphasized the importance of the Geneva Office in promoting UNDP and liaising with the European Governments and Geneva-based United Nations organizations. They supported the D-2 level for the post of Director of the Geneva Office.

101. The proposal for the development of a new appropriation line was generally well received. According to many delegations, it represented a better delineation between programme, programme support and administrative expenditure and responded to relevant Governing Council decisions and General Assembly resolutions. Many delegations, however, requested more information on the precise criteria and guidelines which would be applied for classifying activities under the different categories. One delegation requested additional information on the project-funded posts at headquarters as well as the number of posts financed from extrabudgetary resources.

102. Delegations took note of the fact that a substantial part of field office activities did not directly relate to the delivery of the IPF programme. Some delegations supported the idea to explore ways by which the dual function of field offices could be given appropriate budgetary expression.

Trust funds and other matters

103. Some delegations referred to the rapid growth of some of the trust funds and asked why efforts to reduce staff had not equally been applied to them. In that connection, additional information was requested to justify the proposed reclassifications. Some delegations considered the proposals reasonable but requested more information about the relationship between administrative costs and income and the follow-up to paragraph 22 of decision 90/45. One delegation was concerned that the proposed freezing of staffing levels for UNCDF and UNSO would affect their ability to deliver programmes.

104. One delegation requested information on the performance of the 27 field economists in Africa. The same delegation also requested information on the number of female Professionals in senior staff positions both at headquarters and in the field.

Response of the Administration

105. The Associate Administrator, the Assistant Administrator and Director of the Bureau for Finance and Administration, the Director of Finance, and the Chief of Budget responded to the questions asked and observations made.

106. The Administration indicated that it had taken note of the points raised with regard to OPS. The management responsibilities and span of control continued to require the two most senior OPS posts to be graded at the ASG and D-2 levels. The authority granted to the Administrator in decision 82/31 of 18 June 1982 to adjust OPS staffing levels during the biennium was integral to the functions of OPS. As to the Administrator's use of authority, reference was made to the graph on page 25 of document DP/1991/49 (vol. I). That graph showed that the Administrator had in fact exercised considerable restraint. The Administration did not share the findings of the statistical analysis included in the Kienbaum report. Using 1975 as a baseline year distorted any analysis since OPS had just been established at that time.

107. With regard to the provision for payment of termination indemnity to a staff member whose post would be abolished, the Administration confirmed that UNDP policy was to accommodate the reductions through attrition and redeployment to the extent possible. That would probably be easier for Professional staff than for General Service staff. Some provision would be needed to allow for flexibility to address specific cases and circumstances. The average termination indemnity for Professional staff was $55,000 and for General Service staff in New York $35,000. In reply to a specific question, the Associate Administrator indicated that UNDP, contrary to the United Nations, made specific allocations ex-ante.

108. The amounts which OPS reimbursed to UNDP concerned the central services which UNDP core units provided to OPS. The level of reimbursement was determined by a workload study. The fact that provisions were included under both budgetary and extrabudgetary resources of OPS related to the proposals being made to differentiate between OPS activities that were financed from UNDP general resources and those that related to trust funds and management services. A surplus of OPS support costs earnings relating to UNDP-financed activities over the amount appropriated under OPS budgetary resources reverted to UNDP general resources.

109. As to the growth of the 1992-1993 budget, despite the reductions and the declining share of projected programme expenditure, the Administration drew attention to the fact that the cost adjustments, including inflation, cover a two-year period. Reference was also made to the fact that 45 per cent of field office activities were not directly related to delivering the IPF programme. That naturally led to difficulties when comparing administrative expenditure with programme expenditure.

110. In reply to a specific question regarding the justification for automatically including inflation, the Administration clarified the budget methodology by which the full impact of cost adjustments, including inflation, was disclosed. Consequently, any absorption of costs was reflected as volume decrease.

111. In reply to another specific question, the Administration clarified that projected programme expenditure, contrary to budget expenditure, was not affected by inflation in that the programme allocations are fixed in monetary terms in accordance with decision 90/34.

112. As to the distribution of field resources between the different regions in monetary terms, attention was drawn to the fact that costs relating to the economists in Africa should be included. With regard to Cambodia, the Administration stated that the proposed redeployments would take place only at the appropriate time.

113. The Administration confirmed that including TCDC under the PSDA appropriations reflected the great importance UNDP continued to attach to TCDC activities. Regarding the treatment of the Special Unit for TCDC, the Unit was strengthened under the 1990-1991 budget by three Professional and three General Service staff members. That increase was maintained when Governing Council decision 89/59 of 30 June 1989 was implemented. That decision instructed the Administrator to confine the volume growth which was then proposed for UNDP as a whole.

114. CEO had not been strengthened in the context of the 1992-1993 budget in view of the overall containment of the headquarters establishment. Furthermore, the central evaluation function was dealt with in the Kienbaum report. In his comments on the report, the Administrator had referred to a workload study which was being undertaken.

115. With regard to the development of the new appropriation line for programme development activities, the Administration referred to paragraph 54 of document DP/1991/49 (vol. I) for a description of criteria and guidelines for classifying activities under the respective categories of expenditure. The proposal ensured that posts relating to development activities were appropriated and subject to review by the Governing Council in the normal manner. The Administration indicated that 15 project-funded Professional posts would be transferred to the PSDA appropriation line. A complete list of project-funded posts at headquarters would be provided, as well as a list of posts being financed from extrabudgetary resources.

116. As to the substantial part of the field office workload not directly related to the delivery of the IPF programme, the Administration indicated that it was not so much seeking reimbursement from third parties as bringing the situation again to the attention of the Governing Council. Further discussions on the issue could possibly result in a different and more appropriate budget presentation of field office costs.

117. With regard to DSS, the Administration stated that specific guidelines had been issued and that the administration of resources had been decentralized to the field. It was confident that the resources would be fully utilized by the end of the biennium. The concept was new and any new programme would naturally take some time before becoming fully operational. Field offices considered the facility a welcome initiative which allowed access to national expertise in a very cost-effective manner. Consultations with Governments and agencies had not taken place. Given the total allocation of $5 million, the average allocation per country would be approximately $22,000 per year. The possible costs of extensive and frequent reporting should be seen in light of those limited allocations. A detailed list of the use per country, indicating the number of consultants and their origin, would be provided as supplementary information.

118. As to the trust funds, the Administration stated that no staff increases were proposed for UNSO and UNCDF despite continued growth in programme resources. Information on growth would be made available. Furthermore, the Kienbaum report dealt with the management of the funds in some detail. It was, therefore, premature to make proposals for staff increases at that point. Recognizing, however, that the funds did experience growth in programme resources, a limited number of reclassifications was considered justified.

Further comments

119. Upon adoption of the recommendations by the Budgetary and Finance Committee, one delegation informed the meeting that it would like to register its reservation on the future implications of certain paragraphs relating to the decision on the budget estimates for the biennium 1992-1993.

Recommendations of the Committee

Revised budget estimates for the biennium 1990-1991

120. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the revised budget estimates for 1990-1991 and budget estimates for 1992-1993 (DP/1991/49 (vol. I) and Corr.1 and DP/1991/49 (vol. II)),

1. Takes note of the report of the Advisory Committee on Administrative and Budgetary Questions (DP/1991/62);

2. Approves the revised budget estimates in respect of the Office for Project Services;

3. Approves the revised budget estimates in respect of the United Nations Volunteers programme;

4. Takes note of the Administrator's proposal to introduce a revised appropriation structure as reflected in the present decision;

5. Takes note of the proposal of the Administrator for the present biennium to rename the budget line "Programme support activities" to "Programme support and development activities" in order to delineate more clearly in future bienniums between administrative, programme support and programme costs in line with General Assembly resolution 45/235 of 21 December 1990;

6. Approves revised appropriations in the amount of $534,729,500 gross, to be allocated from the resources indicated below to finance the 1990-1991 biennial budget, and resolves that the income estimates in the amount of $30,940,000 shall be used to offset the gross appropriations, resulting in net appropriations of $503,789,500, as indicated below:

UNDP 1990-1991 biennial budget for administrative services, programme support and development activities and trust funds

(Thousands of United States dollars)

	APPROVES:	TAKES NOTE OF:	
	Gross/net Appropriations	Estimated extra-budgetary income	Total gross/net estimates
I. RESOURCES OF UNDP			
A. UNDP core activities a/			
Headquarters b/	152 705.4	14 472.2	167 177.6
Field offices	288 783.1	25 746.3	314 509.4
Gross UNDP core activities	441 488.5	40 218.5	481 687.0
Estimated income	30 960.0	0.0	30 960.0
Net UNDP core activities	410 528.5	40 218.5	450 747.0
B. Programme support and development activities			
Programme development activities	353.2	0.0	353.2
Project/programme implementation services			
DSS	5 000.0	0.0	5 000.0
OPS c/	26 482.8	21 641.0	48 123.8
IAPSO	4 796.6	2 035.5	6 832.1
UNV	27 723.8	0.0	27 723.8
National execution	2 461.4	0.0	2 461.4
Total project/programme implementation services	66 464.6	23 676.5	90 141.1
Total programme support and development activities	66 817.8	23 676.5	90 494.3
C. Total resources of UNDP			
Gross resources	508 286.3	63 895.0	572 181.3
Estimated income	30 960.0	0.0	30 960.0
Net resources	477 346.3	63 895.0	541 241.3
II. RESOURCES OF TRUST FUNDS			
UNCDF	9 839.9	0.0	9 839.9
UNFHRE and UNFSTD	5 708.5	288.9	5 997.4
UNSO	6 701.4	2 401.0	9 102.4
UNIFEM	4 193.4	128.9	4 322.3
Total resources of trust funds	26 443.2	2 818.8	29 262.0
III. TOTAL UNDP APPROPRIATIONS			
Gross appropriations	534 729.5	66 713.8	601 443.3
Estimated income	30 960.0	0.0	30 960.0
Net UNDP appropriations	503 789.5	66 713.8	570 503.3

a/ The Administrator is permitted to redeploy between the field office and headquarters appropriation lines up to a maximum of 5 per cent.

b/ Headquarters extrabudgetary income represents income from external sources, exclusive of reimbursements to UNDP core activities from non-core units. The reimbursements are already included in the appropriation estimates of the non-core units.

c/ The approved appropriation is funded from UNDP general resources.

/...

121. Following its consideration of this item, the Governing Council subsequently adopted decision 91/45.

Recommendation of the Committee

Budget estimates for the biennium 1992-1993

122. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the 1992-1993 biennial budget estimates of the United Nations Development Programme and the funds administered by the United Nations Development Programme,

Takes note of the report of the Advisory Committee on Administrative and Budgetary Questions (DP/1991/62),

A. Presentation of the budget estimates

Recognizing the multifaceted nature of United Nations Development Programme activities and the inherent complexity of the presentation by the Administrator of the biennial budget,

Stressing the need to maintain an appropriate level of detail in the budget estimates,

1. Requests the Administrator to present a more streamlined budget document and, in this connection, invites him to consult with the Advisory Committee on Administrative and Budgetary Questions as appropriate;

2. Requests the Administrator to include in future budget presentations a succinct overall summary of his proposals;

3. Decides that the Administrator shall present his budget estimates in one volume and that at the same time the background information currently contained in volume II of the budget document shall be provided to the Governing Council;

4. Requests the Administrator to include in the information provided on budget estimates an overview of the project-funded posts at headquarters;

5. Further requests the Administrator to limit the narrative relating to the tables currently in volume II of the budget document to concise explanations of the volume changes reflected in the tables;

B. 1992-1993 core budget estimates

6. Congratulates the Administrator for applying a restrictive budget policy and welcomes his proposal to implement volume reductions in the headquarters core budget;

7. Takes note with concern that, despite the proposed volume reductions, the share of United Nations Development Programme overall resources to be allocated to the operational budget is projected to increase from 15.5 per cent to 16.1 per cent;

8. Stresses that resources should be used primarily for programme activities and that administrative expenditures should be kept to the minimum necessary;

9. Requests the Administrator to take appropriate steps to reduce and, if possible, reverse the growth of administrative expenditures, bearing in mind the need to maintain them at as low a possible percentage of overall resources over the whole cycle while maintaining programme quality and to report thereon to the Governing Council at its thirty-ninth session (1992) in the context of the revised budget estimates for 1992-1993;

10. Requests the Administrator to review the staffing requirements of the field offices, taking into account, to the extent possible, the need for an appropriate balance between administrative and programme costs;

11. Requests the Administrator to consider further redeployment of posts from headquarters to the field in order to respond to emerging development needs;

12. Recommends that the distribution of resources among field offices be reassessed as necessary to reflect the distribution of programme resources approved in decision 90/34 of 23 June 1990;

13. Approves the opening of the three new field offices in Europe on a temporary basis;

14. Decides to take a final decision on this issue as soon as possible, but not later than at its fortieth session (1993) in the light of a review justifying the profile, staffing and size of the field offices in Europe, of the progress in the mobilization of extrabudgetary resources and of the government local office cost contributions, with a view to minimizing the costs incurred by the core budget in relation to those offices in connection with paragraph 12, and also taking into account the complementary role of the United Nations Development Programme;

15. Stresses, in line with decision 90/45, paragraphs 11 and 12, that reclassifications should be implemented, bearing in mind the principle of a corresponding offset to ensure that no financial implications arise;

16. Reiterates that all reclassifications of Professional posts are subject to the approval of the Governing Council after submission to the Advisory Committee on Administrative and Budgetary Questions;

17. Approves the proposed reclassifications within the framework of the recommendations of the Administrator for volume reductions at headquarters;

18. Urges the Administrator to keep the number of upward reclassifications to a minimum, particularly at the more senior levels;

19. Approves the Administrator's proposals relating to the streamlining of administrative support functions between the United Nations Development Programme European Office at Geneva, the United Nations Volunteers programme and the United Nations Office at Geneva;

20. Recognizes the importance of the substantive role of the United Nations Development Programme European Office at Geneva and requests the Administrator to review the organizational structure of and the functions performed by the Office in the context of the 1994-1995 budget estimates;

21. Takes note of the intention of the Administrator to present an evaluation of the experience with the field economists in Africa and to make this evaluation available to the Governing Council;

22. Emphasizes the importance of evaluation as a means to improve the quality of the operations of UNDP and requests the Administrator to reassess, in the context of his proposed workload study, the technical capacity of the Central Evaluation Office with a view to strengthening the Office within the proposed budget total;

C. Programme support and development activities

23. Welcomes as a first step the proposal of the Administrator to delineate more clearly between administrative, programme support and programme costs in line with General Assembly resolution 45/235 of 21 December 1990 and, in this connection, stresses the importance of an equally clear and transparent delineation between programme expenditures on the one hand, and programme support and development activities, including the new programme development appropriation line and core budget expenditures, on the other;

24. Emphasizes that the revised appropriation structure should not result in an arbitrary transfer of core budget expenses to the programme support and development activities line and/or programme budgets;

25. Requests the Administrator to develop more specific criteria for the allocation of posts to the programme support and development activities line, in particular the sub-line on programme development activities, and to report thereon to the Governing Council in the context of the 1994-1995 budget estimates for the 1994-1995 biennium, and further requests the Administrator

to include a detailed review of the justification for charging the economist programme to the programme support and development activities line;

26. Does not approve the classification of one additional post at the D-2 level in the Programme Development Division until further review has taken place in the context of overall consideration of the senior management structure;

27. Approves, for the Humanitarian Programme on a temporary basis, the following posts and associated overhead costs to be financed from the core budget: the establishment of the Senior Advisor post at the D-2 level, pending the completion of the senior management review, and the establishment of the Deputy Chief of the Training Section post at the P-5 level; and, bearing in mind the nature of the functions, takes note of the intention of the Administrator to finance, from the Special Programme Resources, on a temporary basis, the posts and associated overhead costs for a specialist for emergency response at the P-5 level and for a specialist for displaced persons at the P-4 level;

D. Office for Project Services

28. Takes notes of the continued growth of the Office for Project Services and requests the Administrator in his report on the Office to the Governing Council at its thirty-ninth session (1992) to elaborate the criteria used by the Office for project acceptance;

29. Requests the Administrator to review the current appropriation mechanism for the Office for Project Services and to present proposals to the Governing Council at its thirty-ninth session to enhance the authority of the Council in determining administrative costs, bearing in mind the proposal of the Administrator on successor arrangements for the Office;

30. Approves, on a temporary basis, the classification of the Director of the Office for Project Services at the ASG level and that of the Deputy Director at the D-2 level;

E. Trust funds

31. Requests the Administrator to include in future budget presentations resource projections for each of the trust funds;

32. Approves the Administrator's staffing proposals relating to the United Nations Development Fund for Women;

33. Takes note of the proposals of the Administrator, contained in document DP/1991/49 (vol. I) and Corr.1 and DP/1991/49 (vol. II), relating to the technical support budgets of the United Nations Capital Development Fund, the United Nations Revolving Fund for Natural Resources Exploration and the

United Nations Development Fund for Women and requests the Administrator to include complete reports thereon in future budget estimates;

34. Requests the Administrator to report to the Governing Council at its thirty-ninth session (1992) on the implementation of paragraph 22 of decision 90/45;

35. Approves the Administrator's proposed reclassifications relating to the United Nations Sudano-Sahelian Office and the United Nations Capital Development Fund on the understanding that they will be offset by reductions with the result that there will be no financial implications for the budgets of the Office and the Fund for the biennium 1992-1993;

F. Other items

36. Decides that any budgetary or reclassification proposals relating to the senior management structure additional to the approved budget would require the prior approval of the Governing Council;

37. Requests the Administrator to review the cost elements charged to the United Nations Development Programme budget not related to the delivery of the indicative planning figure programme as well as costs incurred on behalf of the United Nations Development Programme by others; and also requests the Administrator to provide an analysis of appropriate sources of funding for these elements;

38. Requests the Administrator to make proposals relating to the identification of these cost elements in the United Nations Development Programme budget presentation, and to report thereon in the context of the 1994-1995 budget estimates;

39. Requests the Administrator to present a substantive report on the experiences and utilizaton of the development support services to the Governing Council at its fortieth session (1993);

40. Decides to continue to finance the development support services out of the administrative budget;

41. Requests the Administrator to consider streamlining the administrative functions of the United Nations Volunteers programme, in particular through further decentralization of routine decision-making authority to the field, with a view to achieving an overall reduction of administrative staff, particularly support staff, at United Nations Volunteers headquarters;

42. Takes note of the report of the Administrator on the report on the extrabudgetary policy of the United Nations Development Programme in field offices;

43. Approves revised appropriations in the amount of $611,394,000 gross, to be allocated from the resources indicated below to finance the 1992-1993 biennial budget and resolves that the income estimates in an amount of $32 million shall be used to offset the gross appropriations, resulting in net appropriations of $579,394,000 as indicated below:

UNDP 1992-1993 biennial budget for administrative services, programme support and development activities and trust funds

(Thousands of United States dollars)

	APPROVES:	TAKES NOTE OF:	
	Gross/net appropriations	Estimated extra-budgetary income	Total gross/net estimates
I. RESOURCES OF UNDP			
A. UNDP core activities a/			
Headquarters b/	148 443.1	15 400.0	163 843.1
Field offices	333 781.0	26 548.8	360 329.8
Gross UNDP core activities	482 224.1	41 948.8	524 172.9
Estimated income	32 000.0	0.0	32 000.0
Net UNDP core activities	450 224.1	41 948.8	492 172.9
B. Programme support and development activities			
Programme development activities	20 638.2	0.0	20 638.2
Project/programme implementation services			
DSS	5 788.7	0.0	5 788.7
OPS c/	30 737.7	25 501.8	56 239.5
IAPSO	5 946.5	2 552.1	8 498.6
UNV	32 196.1	0.0	32 196.1
National execution	2 715.7	0.0	2 715.7
Total project/programme implementation services	77 384.7	28 053.9	105 438.6
Programme support d/	2 300.0	0.0	2 300.0
Total programme support and development activities	100 322.9	28 053.9	128 376.8
C. Total resources of UNDP			
Gross resources	582 547.0	70 002.7	652 549.7
Estimated income	32 000.0	0.0	32 000.0
Net resources	550 547.0	70 002.7	620 549.7
II. RESOURCES OF TRUST FUNDS			
UNCDF	10 740.0	0.0	10 740.0
UNIFEM and UNFSTD	4 551.7	171.2	4 722.9
UNSO	8 146.8	2 544.9	10 691.7
UNIFEM	5 408.5	309.2	5 717.7
Total resources of trust funds	28 847.0	3 025.3	31 872.3
III. TOTAL UNDP APPROPRIATIONS			
Gross appropriations	611 394.0	73 028.0	684 422.0
Estimated income	32 000.0	0.0	32 000.0
Net UNDP appropriations	579 394.0	73 028.0	652 422.0

a/ The Administrator is permitted to redeploy between the field office and headquarters appropriation lines up to a maximum of 5 per cent.

b/ Headquarters extrabudgetary income represents income from external sources, exclusive of reimbursements to UNDP-core from non-core units. The reimbursements are already included in the appropriation estimates of the non-core units.

c/ The approved appropriation is funded from UNDP General Resources.

d/ Represents UNDP contribution to the Consultative Group on International Agricultural Research and the UNDP-UNSO/UNEP joint venture.

/...

123. The Governing Council subsequently adopted decision 91/46.

C. Audit reports

124. For its consideration of agenda item 3 (c), the Budgetary and Finance Committee had before it documents DP/1991/52 and Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1989, the reports of the external auditors thereon, and the comments of the Administrator on the audit reports of the executing agencies; the report of the Administrator on the audit report of the United Nations Development Programme itself (DP/1991/48); the financial report and audited financial statements for the year ended 31 December 1989 (A/45/5/Add.1); and the report of the Advisory Committee on Administrative and Budgetary Questions (A/45/570 and Corr.1).

125. The Director, Division of Finance, made an introductory statement concerning the qualification of UNDP accounts. The main points are outlined below.

126. The 1989 UNDP accounts were qualified on two grounds:

(a) Lack of audited accounts for some of the major executing agencies;

(b) Lack of progress made in obtaining audited statements for programme expenditure executed by Governments.

127. The Director informed the Budgetary and Finance Committee that the auditors report on the 1989 audit of UNDP accounts removed the qualification with regard to the lack of a breakdown of cash counterpart expenditure by project. The Director further stated that the proposed move to the biennialization of UNDP-audited financial statements would not solve the problem of the qualifications of the accounts since UNDP could not guarantee the timely submission of audited statements from executing agencies or Governments; nevertheless, every effort would be made to make progress in that area. He reviewed those comments which UNDP had been able to address successfully, including those regarding unliquidated obligations, the two-year budget cycle concept, personal responsibility and liability and the functional title system. He indicated that other comments were continuing to be addressed by UNDP and that the questions on the accounting delineation between programme, programme support and operating expenses and the charging of temporary assistance would be discussed in the debate on the budget.

Summary of the discussion of the Committee

128. The qualification of the accounts was regretted and members requested clarification of the reasons why executing agencies and Governments were unable to submit audit certificates on their accounts on a timely basis. Members also asked for an explanation of the problems experienced by agencies and Governments in that respect. Several members asked if training programmes

were required to assist Governments and whether they could be provided by the UNDP field offices. One member asked what steps UNDP had taken to improve the situation.

129. One member requested information on the various instances of fraud and the steps taken to avoid future abuses. She also questioned the steps taken to protect staff members reporting instances of waste, fraud or abuse. While one member indicated the need to establish minimum levels for the acceptance of trust funds by the Administrator as well as their maximum duration, another reaffirmed that the expansion of trust funds should be encouraged provided that core resources were not affected.

130. UNDP was requested to advise the Budgetary and Finance Committee on the application of stricter guidelines on special service agreements and controls implemented regarding the hiring of consultants. Additional information was also requested on the abuses found in the recording of unliquidated obligations.

Response of the Administration

131. The Associate Administrator responded to the question regarding the training of government personnel, stating that the field offices did not have the staff required to provide the specialized training necessary to assist government auditors. The Assistant Administrator, Bureau for Finance and Administration, reported to the Budgetary and Finance Committee on the efforts undertaken in 1989 to improve the reporting and audit on nationally executed projects. He indicated that significant improvement had been realized in 1990, in that as of 17 May 1990, 70.4 per cent of project expenditure in that year was supported by audit certificates. The question now to be addressed was whether that percentage was sufficient for the Board of Auditors to remove the qualification.

132. He reported on the steps taken by UNDP to respond to the questions on fraud and the implementation of General Assembly resolution 44/183 of 19 December 1989 regarding personal responsibility and liability. He further indicated that he was working closely with the Division of Personnel to ensure that staff members reporting an incidence of fraud, waste or abuse would be protected and that such action would not impact on an individual's career potential in the organization.

133. The Assistant Administrator reiterated that the Administrator did not have the authority to use criminal proceedings as a general deterrent. Such action was at the discretion of the Secretary-General.

134. The Assistant Administrator responded to the questions on unliquidated obligations by explaining that the item had been discussed in the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ(FB)) and that misunderstandings by the agencies had been clarified. Improved procedures on the subject would be incorporated in the closing instructions for 1991, the end of the biennium, when audited accounts from the

agencies were required. He further reported on the action taken with respect to the review of special service agreements and its referral to CCAQ Personnel and General Administrative Questions (PER) and the International Civil Service Commission (ICSC) and announced the appointment within the Division of Personnel of a consultancy manager with responsibility for monitoring the employment of consultants.

135. In closing, the Assistant Administrator stated that while no generally accepted accounting practices existed for international organizations such as UNDP, its accounting practices were no less stringent or precise than those defined under a Generally Accepted Accounting Practice (GAAP). The study undertaken by the Panel of Auditors, which was fully supported by the Administrator, was intended to establish system-wide practices.

Comments of the Director of External Audit

136. The Director of External Audit provided information on different facets of the audit report, including the qualifications of the accounts and other items addressed by members. He confirmed that the timing of the completion of executing agency accounts made it difficult for executing agencies to submit audit certificates before completion of the UNDP audit so that the qualification would remain for some time. He reported to the Budgetary and Finance Committee on the need for and the status of the interim study undertaken by the Panel of External Auditors in connection with the development of general accounting standards within which financial statements could be prepared, as requested by the General Assembly in paragraph 5 of its resolution 45/235 of 21 December 1990. The Director also summarized the situation regarding unliquidated obligations and the misunderstandings in that regard among the executing agencies.

Recommendation of the Committee

137. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the financial report and audited financial statements of the United Nations Development Programme for the year ended 31 December 1989, and the report of the Board of Auditors thereon, contained in General Assembly document A/45/5/Add.1, as well as the views of the Advisory Committee on Administrative and Budgetary Questions thereon, contained in documents A/45/570 and Corr.1,

Having also considered documents DP/1991/52 and Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1989, the reports of the external auditors thereon, the comments of the Administrator on the audit reports of the executing agencies, and the report of the Administrator on the audit report of the United Nations Development Programme itself (DP/1991/48) and the description of the actions

taken in response to Governing Council decision 90/48 of 22 June 1990 and General Assembly resolution 45/235 of 21 December 1990,

Responding to General Assembly resolution 45/235,

Taking into account the views and comments of the members of the Governing Council on these matters, as well as the additional information provided orally by the Director of Finance, the Assistant Administrator, Bureau of Finance and Administration, the Associate Administrator and the Director of External Audit and his representative,

Noting with appreciation the Administrator's support for the interim study being undertaken by the Panel of Auditors in connection with the development of general accounting standards within which financial statements can be prepared,

1. Expresses appreciation for the valuable work performed by the Board of Auditors and for the breadth and scope of their audit report;

2. Notes with concern that the audit opinion of the Board of Auditors of the 1989 accounts of the United Nations Development Programme was qualified on several accounts;

3. Notes that the Administrator has taken, or is taking, the necessary steps to correct the situations or conditions that gave rise to the qualifications of the audit opinion, as required by General Assembly resolution 45/235;

4. Recognizes that the audit report of the United Nations Development Programme may remain qualified so long as audit confirmation of programme expenditure incurred by executing agencies has not been received by the Board of Auditors at the time the Board issues its opinion on the United Nations Development Programme accounts;

5. Requests the Administrator to urge organizations executing projects or programmes to submit audit confirmation of programme expenditure on a timely basis;

6. Notes the efforts made by Governments in their capacity as executing agencies to comply with the audit requirements of the United Nations Development Programme and requests the Administrator to assist Governments, within indicative planning figure resources, to strengthen their capacity to comply with the Programme's audit requirements for national execution of projects funded by the United Nations Development Programme;

7. Requests the Administrator to discuss with the Board of Auditors, the level of programme expenditure executed by Governments acting as executing agencies and supported by audit certification, which would be sufficient to remove the qualification;

8. Requests the Board of Auditors to continue to monitor the study on the feasibility of implementing a two-year project budget cycle and report to the Governing Council in their audit report for 1990-1991;

9. Urges the Administrator to keep under review the controls established to deter fraud and abuse in the payment of staff entitlements and allowances;

10. Requests the Board of Auditors to continue to conduct management audits of core and non-core activities and programmes;

11. Requests the Administrator to ensure that development of procedures for the implementation of a programme approach to execution of activities funded by the United Nations Development Programme includes adequate controls to enable audit of such activities;

12. Urges the Administrator, in cooperation with the executing agencies, to report to the Governing Council, at its next session, on specific corrective action taken to implement the recommendations of their external auditors, which relate to activities funded by the United Nations Development Programme;

13. Welcomes the attendance of representatives of the Board of Auditors at the meetings of the Budgetary and Finance Committee and the comments provided by them.

38th meeting
21 June 1991

138. The Governing Council subsequently adopted decision 91/47.

D. Procurement from developing countries

139. For its consideration of agenda item 10 (c), the Budgetary and Finance Committee had before it document DP/1991/53, containing the report of the Administrator on procurement from developing countries.

140. The Assistant Administrator, Bureau for Finance and Administration, introduced document DP/1991/53 and was pleased to report the encouraging growth that had taken place in recent years. He gave an overview of the methodology of the study undertaken by the Inter-Agency Procurement Services Office (IAPSO), along with findings concerning factors contributing towards increased procurement from developing countries, the workings of the price preferential system and recommendations based on the study. He also requested donors, developing countries themselves and international institutions to make efforts and facilitate an enabling environment to overcome numerous constraints which were beyond the span of control of the United Nations system for increasing procurement from developing countries.

Summary of the discussion in the Committee

141. Delegations thanked the Assistant Administrator for his informative introductory statement and for the comprehensive documentation submitted to the Committee.

142. Delegations recognized with appreciation the efforts of the United Nations system to promote procurement from developing countries and emphasized the need to identify potential suppliers of goods and services in developing countries, including the production of country-specific catalogues, which would assist towards that objective.

143. One representative also called upon UNDP to take measures towards increasing procurement from underutilized major donor countries in order to reduce the unacceptable geographical imbalance in procurement.

144. One representative requested clarification in regard to country of origin and the method used to apply the 15 per cent price preferential system.

145. Some delegations expressed the view that the 15 per cent price preferential system should be discontinued, since it had proven to be an ineffective provision.

146. Delegations supported the recommendations contained in the reports of the Administrator, but one representative doubted that the implementation of those recommendations would be binding on all organizations of the United Nations system, emphasizing that it should be ensured that implementation of the recommendations would not imply an increased budget for IAPSO. He stressed that more emphasis should be placed on making the current procedures of procurement more effective and efficient and proposed that a better coordinated approach by the United Nations system would benefit the recipient countries. He expressed the view that a quota system as recommended in the Joint Inspection Unit (JIU) report as well as that of charging the 15 per cent to a separate central fund were not desirable solutions.

Response of the Administration

147. The Assistant Administrator thanked the delegates for their support and constructive statements.

148. In response to the questions from delegations on the definition of country of origin, the Director of the Inter-Agency Procurement Services Office explained that, although there was no final definition of country of origin if one were to use the definition adopted by the United States Agency for International Development (USAID) for a product to qualify as indigenous for statistical reporting, under country of origin, there must be a minimum of 20 per cent value added. He also informed the meeting of the difficulty that the agencies experienced in compiling the data relating to country of origin, indicating the considerable effort involved. One would wonder whether such data would be required in future reporting, recognizing the considerable inputs of imported parts and materials in all manufactured goods.

149. In regard to questions on procurement trends country-wise, the Director introduced the 1990 Annual Statistical Report. He also stated that this was the first attempt by IAPSO to compile data for all elements of technical cooperation, i.e., experts, volunteers, consultants, equipment, and subcontracts under UNDP funding, as well as all other sources of funding. The Director also gave an overview of the method of awarding contracts by the United Nations system, i.e., by ensuring that competitive bidding was followed in accordance with financial rules and regulations.

150. With regard to the question on the workings of the 15 per cent price preferential system, the Director clarified that that proviso could be applied only with the explicit consent and approval of the recipient Government, since it was drawn against the IPF and thus had proven to be an ineffective mechanism.

151. With regard to the question on procurement from multinational companies, the Director replied that procurement was undertaken based on competitive bidding. However, to encourage more indigenous sources from developing countries to come forward, IAPSO provided its monthly bulletin, "Procurement Update", to all focal points in the developing countries for further dissemination to potential suppliers.

152. Referring to the concern expressed by delegations about a possible increase in the budget of IAPSO to implement the recommendation of the Administrator, the Assistant Adminstrator clarified that consistent with the budget strategy of UNDP, budgetary restraint had also been applied to IAPSO.

153. With regard to the suggestion on increased coordinated procurement by the United Nations system, the Assistant Administrator referred to the Secretary-General's announcement in December 1990, which established coordinated procurement activities in Denmark. UNDP was already working on this in cooperation with the United Nations Children's Fund (UNICEF), the United Nations and the Office of the United Nations High Commissioner for Refugees (UNHCR).

154. With regard to the query from one delegation as to how the 15 per cent price preferential system was seen as potentially counterproductive, the Assistant Administrator clarified the situation by pointing out that such a subsidy might prove undesirable in the longer run since companies would eventually have to compete in the market on a competitive basis.

Recommendations of the Committee

155. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Recalling its decision 90/27 of 20 June 1990,

Also recalling General Assembly resolution 44/211 of 22 December 1989, in particular paragraphs 21 and 22 thereof,

1. Takes note of the report of the Administrator on procurement from developing countries (DP/1991/53), the 1990 Annual Statistical Report prepared by the Inter-Agency Procurement Services Office and the observations and comments made thereon by delegations at the current session;

2. Notes the progress made in procurement from developing countries and urges all specialized agencies of the United Nations system to give preference to suppliers from developing countries and to continue their efforts to increase procurement from developing countries and underutilized major donor countries, keeping in mind the principle of universality, and in conformity with international competitive bidding and the Financial Regulations of the United Nations;

3. Stresses the need to ensure that adequate consideration be given to the desire for long-term sustainability, maintenance and compatability with local requirements in developing countries in making procurement decisions in line with the general principles of procurement in the Financial Regulations of the United Nations Development Programme;

4. Continues to urge all specialized agencies of the United Nations system to ensure that advance information on business opportunities be reported to the Inter-Agency Procurement Services Office and disseminated systematically, in particular to developing countries;

5. Requests all specialized agencies of the United Nations system to provide annually to the Inter-Agency Procurement Services Office complete statistical information on procurement, including international experts, consultants, national experts, fellowships and volunteers and, also requests, whenever possible, that this information be broken down by gender, for the preparation of a summary report to be attached as an annex to the annual report of the Administrator, with a more comprehensive statistical report being made available to the Governing Council for information;

6. Requests the Administrator to ensure that further support be given to the implementation of the measures indicated in paragraph 13 of document DP/1991/53 which have proved to be successful in procurement from developing countries, i.e., the consolidation of guidelines developed in the United Nations system; the establishment of a common database by the Inter-Agency Procurement Services Office; the strengthening of national capabilities through training programmes; improvement in project formulation and internal instructions; increased market knowledge; human resources development; increased transparency and advance information of procurement activities in the United Nations system; and the strengthening of focal points at local

levels; and also requests the Administrator to report to the Governing Council at its fortieth session (1993) on the progress made in this area;

7. Concludes that, in the context of the above paragraphs, the 15 per cent price preferential system appropriation has no merit in its present form and that the arrangement should accordingly be discontinued for the procurement operations of the United Nations Development Programme and the United Nations Population Fund and requests the Administrator to submit to the Governing Council at its fortieth session (1993) proposals for other, more effective mechanisms aimed at increasing procurement from developing countries.

156. The Governing Council subsequently adopted decision 91/48.